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TREASURY FOR OASIA
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STATE PASS FEDERAL RESERVE SAN FRANCISCO FOR DFINEMAN

SENSITIVE BUT UNCLASSIFIED
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TAGS: [ECON](#) [EFIN](#) [VM](#)
SUBJECT: Vietnam's State Capital Investment Corporation

REF: HANOI 1149

¶2. (SBU) Summary: The State Capital Investment Corporation (SCIC) officially opened its doors in August 2006, by order of the Prime Minister, in order to become the repository of the GVN's shares in most equitized state-owned enterprises. With a current capital base of \$315 million, SCIC expects to implement a rapid-fire disposal program of the vast majority of the small stakes it will receive in equitized companies so that it may re-deploy those funds in companies and industries deemed strategically important. SCIC officials seem to want to create an efficient and relatively transparent organization that can meet Vietnam's strategic needs while contributing to a more vibrant private sector economy. End Summary.

¶2. (U) This is one of five cables reporting on Regional Financial Attache Susan Baker's May 29-June 1 visit to Vietnam. This message reports her findings and impressions of the State Capital Investment Corporation.

SCIC MANAGEMENT PHILOSOPHY SEEMS SOUND

¶3. (U) Vietnam's State Capital Investment Corporation (SCIC) officially opened its doors in August 2006, by order of the Prime Minister, in order to become the repository of the Government of Vietnam's (GVN) shares in most equitized state-owned enterprises (SOEs). According to an SCIC publication detailing its investment as of February 7, 2007, SCIC Chairwoman Le Thi Bang Tam believes that "continuous improvements to the State management of SOEs are crucially important to achieve stronger growth and economic integration with the rest of the world. This requires a distinct separation between regulatory and supervisory function, complete business autonomy, removal of all state subsidies and preferential capital grants to SOEs and more efficient and flexible mechanism for state capital investment." SCIC, established as a "special economic organization of the State," has a government mandate to:

- * "(i) act as the sole representative of State ownership in state invested enterprises;
- * (ii) invest state capital in key sectors where state dominance is needed;
- * (iii) raise capital from domestic and overseas markets;
- * (iv) provide financial advice and business support; and
- * (v) promote international cooperation in the areas of investment and corporate finance."

¶4. (SBU) SCIC officials said they expect to have three categories of holdings. SCIC would maintain stakes in strategically important companies in the first category indefinitely. Staff expects this

category to contain only around 10 firms, such as Vinamilk, technology company FPT, and large financial institutions. In the second category, they would include 50 to 60 medium-sized companies in need of restructuring. They would expect gradually to sell these companies off to strategic shareholders. Finally, the vast majority of holdings would fall into a third category of small holdings to be sold.

15. (SBU) SCIC officials reported that they intend to promote early engagement of consultants and strategic shareholders to introduce high standards of corporate governance in their companies. SCIC will encourage all its companies to be audited and publicly listed. Currently 18 of their companies are listed, with another 20 expecting to list soon. SCIC recognizes that its limited staff will not be able to monitor carefully each company, and as such will need to rely on market pressure to encourage good corporate performance. So far, SCIC officials sit on less than 10 of the boards of directors for the companies in its portfolio, but SCIC said that in many cases the directors representing line ministries would "report" to SCIC on company issues. SCIC noted that its Singapore counterpart Temasek had recommended promoting independent directors rather than attempting to staff boards itself. (Note: SCIC reported having discussions and studying the models of other sovereign wealth funds from Singapore, Malaysia and Qatar.)

16. (SBU) SCIC itself expects to have its financial statements audited by a Big Four accounting firm and to publish them on its website. (Note: this would be a higher level of transparency than other similar organizations in the region.) SCIC's management board will meet quarterly, chaired by a former Deputy Minister of Finance who works for SCIC full time. Other management board members include the Deputy Minister of Planning and Investment, the Deputy Minister of Industry and SCIC's chief auditor. SCIC also expects to have various investment committees focusing on specific sectors.

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BUT MANY COMPANY EXCEPTIONS

17. (SBU) SCIC is currently not slated to receive government shares in a set of large holding companies that the government will establish to hold shares in what the government considers to be 12 to 19 key industries (reportedly including, for example, textiles, rubber, shipyards, airlines, minerals and oil & gas). Moreover, SCIC is currently not slated to be the repository of the equitized shares of state-owned commercial banks in which the government intends to maintain control, although SCIC officials confessed that they hoped to take over these financial institutions' shares. This would require a change to a government decree on transformation of state-owned banks, which SCIC staff hoped would occur in June 2007.

AGGRESSIVE PLANS FOR DISPOSAL

18. (SBU) SCIC officials reported that as of end May 2007, SCIC held stakes in 600 equitized companies, with ownership share averaging 40 percent, but reaching as high as 90 percent in some cases. By the end of 2007, they expect to receive stakes in 400 more companies, giving them up to 1000 different stakes worth less than US\$ 1 million per company. Saying that they intended to only hold 100-200 of these stakes for any length of time, SCIC officials said they were working with several consulting firms and investment banking firms on strategies for block sales. For example, they may sell stakes in several companies in a particular industry as a group to an interested party. SCIC reported that they had signed more than 50 international partnership arrangements on a non-exclusive basis. SCIC's proposal to open a joint venture security company with Morgan Stanley has raised questions about SCIC's ability to engage with multiple foreign investment advisors.

CONSTRAINTS TO GROWTH

19. (SBU) SCIC was seeded with \$315 million in capital, but

officials expect the Prime Minister to approve a capital transfer of up to \$1 billion. SCIC officials also hope to raise capital through the securities markets, but noted that SCIC needed a three year track record before it could issue bonds. (Note: it might also have to be officially "equitized" itself.) After eight months in operation, SCIC has a staff of 55 people, which they hope to double by the end of 2007. Recognizing the very competitive market for financial talent in Vietnam, SCIC had requested "special status" to provide higher salaries and structure its remuneration differently than typical civil service policy.

¶10. (SBU) Comment: SCIC's rhetoric and corporate set-up generally seem in line with international best practices of state-owned enterprise management. However, the large exceptions to the assets they are given brings into question whether they will ever be as powerful as regional counterparts such as Singapore's Temasek and or Malaysia's Kahzanah. There is a risk that SCIC will end up holding many small stakes in problematic companies. If it is stuck with bad assets, its admirable start with respect to transparency may prove difficult to maintain in the future. End Comment.

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